

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

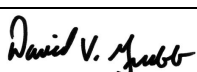
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**District Court Funds of District No. 40
City of St. Clair Shores, Michigan**

**Financial Report
June 30, 2006**

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

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Independent Auditor's Report

To the Honorable Judges
District Court No. 40
St. Clair Shores, Michigan

We have audited the accompanying basic financial statements of District Court Funds of District No. 40 (a component unit of the City of St. Clair Shores, Michigan) as of June 30, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the management of District Court Funds of District No. 40, City of St. Clair Shores, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of District Court Funds of District No. 40, City of St. Clair Shores, Michigan as of June 30, 2006 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

District Court Funds of District No. 40 has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 12, 2006

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District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Governmental Funds Balance Sheet/Statement of Net Assets

Operating Account

June 30, 2006

	Operating Account - Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets - Due from District Control Unit	<u>\$ 40,141</u>	<u>\$ -</u>	<u>\$ 40,141</u>
Liabilities - Checks issued in excess of bank balance	<u>\$ 40,141</u>	<u>\$ -</u>	<u>\$ 40,141</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Operating Account Year Ended June 30, 2006

	Operating Account - Modified Accrual Basis	Adjustments	Statement of Activities
Revenue			
Funding from District Control Unit	\$ 319,693	\$ -	\$ 319,693
Interest	65	-	65
Total revenue	319,758	-	319,758
Expenditures			
Office supplies	36,387	-	36,387
Operating supplies	13,452	-	13,452
Professional fees	126,317	-	126,317
Phones and communications	22,865	-	22,865
Travel	3,951	-	3,951
Printing	15,426	-	15,426
Utilities	5,214	-	5,214
Repairs and maintenance	71,407	-	71,407
Rentals	11,553	-	11,553
Miscellaneous	13,186	-	13,186
Total expenditures	319,758	-	319,758
Excess of Revenue Over Expenditures/ Change in Net Assets	-	-	-
Fund Balance/Net Assets - Beginning of year	-	-	-
Fund Balance/Net Assets - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Budgetary Comparison Schedule

Operating Account

Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
Funding from District Control				
Unit	\$ 307,050	\$ 307,050	\$ 319,693	\$ 12,643
Interest	-	-	65	65
Total revenue	307,050	307,050	319,758	12,708
Expenditures				
Office supplies	40,000	40,000	36,387	3,613
Operating supplies	34,050	34,050	13,452	20,598
Professional fees	89,000	89,000	126,317	(37,317)
Phones and communications	34,000	34,000	22,865	11,135
Travel	500	500	3,951	(3,451)
Printing	15,000	15,000	15,426	(426)
Utilities	9,000	9,000	5,214	3,786
Repairs and maintenance	67,000	67,000	71,407	(4,407)
Rentals	8,000	8,000	11,553	(3,553)
Miscellaneous	10,500	10,500	13,186	(2,686)
Total expenditures	307,050	307,050	319,758	(12,708)
Excess of Revenue Over Expenditures	-	-	-	-
Fund Balance - Beginning of year	-	-	-	-
Fund Balance - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Statement of Net Assets Fiduciary Funds June 30, 2006

	Agency Funds	
	Bond Account	General Account
Assets - Cash and cash equivalents (Note 3)	<u>\$ 78,463</u>	<u>\$ 489,846</u>
Liabilities		
Due to:		
District Control Unit	\$ -	\$ 339,816
Macomb County	-	15,365
State of Michigan	-	59,581
Refundable bonds	78,463	-
Garnishments, restitution, and other	<u>-</u>	<u>75,084</u>
Total liabilities	<u>\$ 78,463</u>	<u>\$ 489,846</u>

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2006

Note I - Significant Accounting Policies

The accounting policies of District Court Funds of District No. 40, City of St. Clair Shores, Michigan (the "District Court") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The District Court is governed by two elected judges. There are no component units.

The following is a summary of the significant accounting policies used by District Court Funds of District No. 40:

The District Court's basic financial statements present combined governmental fund modified accrual financial statements and government-wide full accrual financial statements.

The government-wide full accrual financial statements (the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

As of and for the year ended June 30, 2006, no adjustments were necessary in order to arrive at the government-wide full accrual financial statements.

The District Court has elected not to present a management's discussion and analysis.

The District Court of the City of St. Clair Shores, Michigan is a component unit of the City of St. Clair Shores, Michigan (the "City") and is included in the basic financial statements of the City at June 30, 2006.

The operating account of the District Court is a governmental fund. The financial activities of the fund are limited to collection of subsidies from the City of St. Clair Shores General Fund and payment of expenditures.

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2006

Note 1 - Significant Accounting Policies (Continued)

The bond and general accounts of the District Court are Agency Funds. The financial activities of the funds are limited to collection of amounts that are subsequently returned or paid to third parties. The funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 2 - Court Operations

The payroll costs relating to the operation of the District Court are a budgeted item of the City of St. Clair Shores, Michigan General Fund and, accordingly, such costs are paid by the City's General Fund. All other costs are paid from the operating account of the District Court.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the District Court to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The District Court is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The District Court has designated one bank for the deposit of its funds. The District Court's deposits and investment policies are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. The District Court does not have a deposit policy for custodial credit risk. At year end, the District Court had approximately \$506,000 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The District Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

District Court Funds of District No. 40

City of St. Clair Shores, Michigan

Notes to Financial Statements
June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 98,981	AAA	Standard and Poor's

Note 4 - Budget Information

The budget of the operating account is prepared by the District Court management and adopted by the city council; subsequent amendments are approved by the city council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a total expenditure basis, which reflects the District Court's activity; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The budget statement has been presented on a line-item basis for informational purposes. Expenditures were incurred in excess of appropriated amounts due to unanticipated expenditures that became necessary during the year.

Note 5 - Risk Management

The District Court is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District Court is a component unit of the City of St. Clair Shores and all risks of loss are borne by the City.



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September 12, 2006

To the Honorable Judges of
District Court No. 40
27701 Jefferson Avenue
St. Clair Shores, MI 48081

Dear Judge Fratarcangeli and Judge Oster:

We have recently completed our audit of the District Court Funds of District No. 40, City of St. Clair Shores, Michigan for the year ended June 30, 2006. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Bank Reconciliations

The monthly reconciliation of bank accounts helps ensure that accurate financial information is available on a timely basis and serves as one of the most important aspects of the internal control environment. While bank reconciliations were performed timely throughout the year, we noted unreconciled differences each month and numerous outstanding checks dated prior to 2004.

In addition, we noted that bank reconciliations generally were not subject to a supervisory approval after preparation. Review and approval of the bank reconciliations will not only assist in identifying errors but will also improve the segregation of duties among Court staff. As you are likely aware, appropriate segregation of job responsibilities is the foundation for a sound system of internal control and is also a primary tool in the prevention of fraud.

We recommend that the Court implement procedures to ensure that reconciling items on bank reconciliations are identified in a timely manner and that old outstanding items are written off when a valid claim no longer exists. In addition, we recommend a supervisory review of bank reconciliations by someone other than the preparer.

Bond Subsidiary Ledger Reconciliation

During the year ended June 30, 2006, we noted that the bond bank account was not formerly reconciled to the bond subsidiary ledger (open bond listing) on a monthly basis. It is our understanding that the bond listing generated from JIS had not been properly updated to reflect bonds that were closed or forfeited during the year. Subsequent to June 30, 2006, the Court began updating the bond listing to address these issues. We commend the Court for investigating these issues and continue to encourage the Court to formalize a monthly reconciliation process. This process should include a monthly comparison of the bond bank account to the bond listing, and a supervisory review by someone other than the preparer.



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Depository/Trust and Agency Account Reconciliation

During the year ended June 30, 2006, we noted that the funds held in the depository bank account, trust and agency bank account, and the investment cash account were not formerly reconciled to a subsidiary ledger on a monthly basis. As a result, cash on hand exceeded the amounts identified as being owed to others (i.e., due to City, State, and County, garnishments, restitution, etc.) by approximately \$75,000. We encourage the Court to formalize a monthly reconciliation process for the three bank/investment accounts listed above. This process should include a monthly comparison of the bank accounts to the related liabilities/subsidiary ledger and a supervisory review by someone other than the preparer.

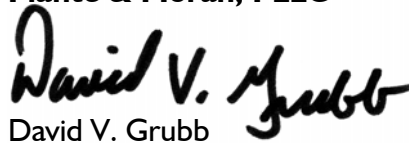
Other Items

- **Cash Disbursements** - During our testing of cash disbursements, we noted no approval of invoices, as evidenced by the signature of an authorized individual. In addition, invoices were not stamped as to when they were received, nor was there evidence of the general ledger account number(s) to indicate the distribution of the expense. We encourage the Court to establish procedures to formally document approval, date received, and the general ledger account distribution for all invoices. These procedures should occur prior to the payment of invoices and the approval of invoices should be performed by someone other than the check signers.
- **JIS Edit Reports** - It is our understanding that any District Court employee with access to JIS can make certain edits to a case. While a memo is automatically generated within the case to describe the type of edit, the date created, and the person responsible for making the edit, these memos could be deleted by the person making the edits. Internal controls are weakened when the history of system changes can be removed by the creator of the update/edit. It is our understanding that as of September 11, 2006, the District Court disabled this function within the system.

We would like to thank the Court for the opportunity to serve as auditors. If you would like to discuss any of these matters further, or would like assistance in the implementation of changes, please contact us at your convenience.

Very truly yours,

Plante & Moran, PLLC


David V. Grubb


Jenny L. Cederstrom

cc: Mr. Kenneth Podolski
Mr. Timothy Haney